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## **Small Business Lending Fund Outline of Legislation**

- ❖ **Purpose:** To address the ongoing effects of the financial crisis on small businesses by providing temporary authority to the Secretary of the Treasury to make capital investments in eligible institutions in order to increase the availability of credit for small businesses.
- ❖ **Eligible Institutions**
  - ◆ Any insured depository institution, which:
    - is not controlled by a bank holding company or savings and loan holding company that is also an eligible institution
    - has total assets of equal to or less than \$10 billion, as reported on the Call Report as of the end of the fourth quarter of calendar year 2009
    - is not directly or indirectly controlled by any company that has greater than \$10 billion in assets
  - ◆ Any BHC or SLHC which has total consolidated assets of equal to or less than \$10 billion as reported on the 2009 fourth quarter Call Report
  - ◆ Any community development financial institution loan fund which has total assets of equal to or less than \$10 billion

- ❖ **Small Business Lending** - for purposes of the fund means lending, as defined by and reported in an eligible institutions' Call Report, where each loan comprising such lending is one of the following types:

- ◆ Commercial and Industrial loans
- ◆ Owner-occupied nonfarm, nonresidential real estate loans
- ◆ Loans to finance agriculture production and other loans to farmers
- ◆ Loans secured by farmland

NOTE: No loan that has an original amount greater than \$10 million or that goes to a business with more than \$50 million in revenues shall be included in the measure.

In the case of BHCs or SLHCs having one or more IDI subs, small business lending shall be measured based on the combined small business lending reported on the Call Report of the IDI subs.

- ❖ **Fund Program Characteristics**

- ◆ Administered by the Secretary; Fund equal to \$30 billion
- ◆ Secretary uses the Fund to make purchases of preferred stock and other financial instruments from eligible institutions on such terms and conditions determined by the Secretary
  - "Other financial instruments" includes only debt instruments for which eligible institutions are fully liable or equity equivalent capital of the eligible institution. Such debt instruments may be subordinated to the claims of other creditors of the institution.

- ❖ **Terms and Applications**

- ◆ Institutions submit applications for the capital investments to Treasury
- ◆ The limit on capital investments is 5% of risk weighted assets for institutions with assets less than \$1 billion and 3% for institutions with assets btw \$1-\$10 billion
- ◆ Requirement to provide a small business plan: when an institution submits an application to Treasury, the institution must also deliver to the appropriate federal regulator, and in the case of state chartered banks, to the appropriate state banking department, a small business lending plan describing how the applicant's business strategy and operating goals will allow it to address the needs of small business in the area it serves. This is considered confidential supervisory information.

- ◆ Consultation with Regulators: For each application, Treasury must consult the appropriate federal regulator to determine whether the eligible institution may receive such capital investment AND in the case of state chartered institutions, consider any views the state banking regulator has regarding the financial condition of the applicant.
- ◆ Institutions rated CAMELs 4 or 5 or are on the FDIC's Problem Bank List are ineligible for the program.

#### ❖ Incentives to Lend

- ◆ Institutions will initially pay Treasury dividends or interest at 5% annually
- ◆ Within the first two years of the investment, the rate of dividends or interest may be adjusted based on the amount of small business lending that institution has done according to the following schedule (periods are based on any calendar quarter and changes are relative to the baseline):
  - If small business lending has increased by less than 2.5%, the dividend or interest rate remains 5%
  - If small business lending has increased by 2.5% to 5%, the dividend or interest rate will be 4%
  - If small business lending has increased by 5% to 7.5% the dividend or interest rate will be 3%
  - If small business lending has increased by 7.5% to 10%, the dividend or interest rate will be 2%
  - If small business lending has increased by 10% or greater, the dividend or interest rate will be 1%
- ◆ The rate that is being paid at the end of the 2 year period will continue to be paid until the end of 4.5 years, unless small business lending has remained constant or decreased, in which case the institution will pay 7% after the 2 year period and until the 4.5 year mark.
- ◆ After 4.5 years, all institutions will pay a 9% dividend or interest rate for the remainder of the investment.

#### ❖ Repayment Deadline

- ◆ Capital investment to be repaid no later than 10 years after the initial investment